

**TRS Board Testimony  
House Bill No. 113  
Introduced by J. O'Hara  
By Request of the Teachers' Retirement System**

**Presented by David L. Senn, Executive Director  
Teachers' Retirement System  
January 17, 2011**

**Background**

The Optional Retirement Plan (ORP) was created for faculty and administrators of the Montana University System (MUS) effective January 1, 1988. Subsequent to the establishment of the ORP, MUS employees could elect to join ORP or TRS. To prevent an adverse impact on TRS created by the option, each employer within the MUS is required to contribute to TRS a supplemental contribution, which is a percentage of the earned compensation of MUS employees who participate in the ORP. The supplemental rate has varied over the years from an initial rate of 4.503%, decreasing to 2.93% in 1993, and today is 4.72%. This cost is totally paid by MUS employers; employees who participate in the ORP do not contribute to TRS.

The purpose of the supplemental employer contribution was to replace the funding TRS lost when MUS faculty and administrators were no longer required to participate in TRS. Legislation in 1993 required all new MUS employees hired after July 1, 1993 to join the ORP, and established a deadline of July 1, 2033 for payment of past service liabilities of the MUS. Had the legislature not required the MUS to cover their fair share of the TRS unfunded liabilities when the TRS was closed to MUS faculty and administrators, K-12 employers would have been left to cover the majority of the cost of the past service liabilities of MUS members who remained in the TRS.

**House Bill 113**

Current law, §19-20-621, MCA, requires each employer within the university system with employees participating in the optional retirement program to contribute to the Teachers' Retirement System a supplemental employer contribution sufficient to amortize the past service liability of the MUS TRS members by July 1, 2033. The law also requires the TRS Board to periodically review the MUS supplemental employer contribution rate and recommend adjustments to the legislature as needed to maintain the amortization of the university system's past service liability by July 1, 2033. Therefore, based on the July 1, 2010 valuation, the MUS supplemental contribution rate must increase by 3.82%, from 4.72% to 8.54%, to amortize the MUS past service liability by July 1, 2033. When you close a system to a group of employees you must continue to fund the existing liabilities, and it is common to require employers to continue to make the contributions they would have contributed if the system had not been closed, i.e., as a percentage of future payroll.

Recognizing the large increase in contribution the university system would be required to contribute to the TRS if the required rate was implemented immediately, HB 113 proposes to phase in the required employer contribution rate increase. Beginning July 1, 2011, the employer contribution rate would increase by 0.50% per year through July 1, 2019, unless the rate as of the most recent valuation is sufficient to maintain the amortization of the past service liability by July 1, 2033. If HB 113 is approved, the rate required to amortize the MUS past service liabilities will be reviewed every year and the 0.50% increase will be applied only if the total rate is not sufficient to amortize the past service liability by July 1, 2033. The cost of this proposal over the next biennium is approximately \$2.3 million.